

CITY OF ANNA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2011

**CITY OF ANNA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Table of Contents

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report.....	1-2
<u>Required Supplementary Information:</u>	
Management's Discussion and Analysis.....	3-8
<u>Basic Financial Statements</u>	
<u>Government-wide Financial Statements</u>	
Statement of Net Assets.....	9-10
Statement of Activities.....	11
<u>Fund Financial Statements</u>	
Fund Balance Sheets – Governmental Funds.....	12
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Statement of Net Assets – Proprietary Fund.....	16
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	17
Statement of Cash Flows – Proprietary Fund.....	18
Notes to Basic Financial Statements.....	19-33
<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule – General Fund.....	34
Pension Funding Data.....	35-37
COMPLIANCE AND INTERNAL CONTROLS SECTION	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38-39

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the City Council of the
City of Anna, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Anna, Texas (the City), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Anna as of September 30, 2011, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated March 29, 2012 on our consideration of the City's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The retirement system funding information on pages 35 through 37 is also not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

LaFollett and Company PLLC

LaFollett & Company, PLLC
Tom Bean, Texas
March 29, 2012

CITY OF ANNA MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of City of Anna's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of FY11 by \$30,111,652. This is an increase of \$1,501,346 over FY10's net asset value of \$28,610,306. Unrestricted net assets at the close of FY11 are \$3,988,760 and may be used to meet the City's ongoing obligations to citizens and creditors. This is an increase of \$642,095 over FY10's unrestricted net asset value of \$3,346,665.
- The City's total net assets increased by \$1,501,346, or 5.2%, as a result of \$1,874,902 of street, drainage, and other capital contributions. Net assets decreased by \$373,556 when these non-operating contributions are excluded from 2011 results.
- The City's governmental funds reported on page 12 have an ending fund balance of \$2,621,810, which is an increase of \$116,875 in comparison with FY10 ending fund balances of \$2,504,935. \$2,097,832 of the fund balance is classified as "unassigned" and available for spending at the City's discretion and in compliance with the City's financial policies.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 9-11). These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and the appropriations from the State. Proprietary fund financial statements report activity for the City's water, sewer, and sanitation operations.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

Reporting the City as a Whole – Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities

Government-wide financial statements, which provide an analysis of the City's overall financial condition and operation, begin on page 9. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The statement of Net Assets includes all the City's assets and liabilities (including long-term items) while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions, 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City has two kinds of activities:

Governmental Type Activities – City services such as police and fire protection, street maintenance, and city administration are reported here. City property taxes finance most of these activities.

Business-Type Activities - The City uses proprietary (business-type) funds to account for its water, sewer, and sanitation operations. The services are supported by monthly charges to citizens.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds. The City's two kinds of funds-governmental and proprietary – use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules found on pages 13 and 15.

Proprietary Funds – The City uses proprietary (business-type) funds to account for its water, sewer, and sanitation operations. The full-accrual basis of accounting is used for all proprietary type funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Seventy-five percent (75%) of the City's net assets are invested in capital assets; land, buildings, vehicles and electronic equipment, less any outstanding debt used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

The following tables summarize the Statement of Net Assets and Changes in Net Assets for the year ended September 30, 2011:

	Governmental Activities		Business-type Activities		Total	
	FY11	FY10	FY11	FY10	FY11	FY10
Current and other assets	\$ 3,101,078	\$ 2,999,203	\$ 5,811,315	\$ 5,322,185	\$ 8,912,393	\$ 8,321,388
Capital assets	16,026,492	15,839,661	31,234,383	30,953,045	47,260,875	46,792,706
Total assets	19,127,570	18,838,864	37,045,698	36,275,230	56,173,268	55,114,094
Long-term liabilities outstanding	4,944,345	4,899,828	19,577,132	19,960,621	24,521,477	24,860,449
Other liabilities	341,955	140,535	1,198,184	1,502,804	1,540,139	1,643,339
Total liabilities	5,286,300	5,040,363	20,775,316	21,463,425	26,061,616	26,503,788
Net assets:						
Invested in capital assets, net of related debt	11,048,398	10,939,833	11,657,252	10,992,423	22,705,650	21,932,256
Restricted	156,274	206,256	3,260,968	3,125,129	3,417,242	3,331,385
Unrestricted	2,636,598	2,652,412	1,352,162	694,253	3,988,760	3,346,665
Total net assets	\$ 13,841,270	\$ 13,798,501	\$ 16,270,382	\$ 14,811,805	\$ 30,111,652	\$ 28,610,306

	Governmental Activities		Business-type Activities		Total	
	FY11	FY10	FY11	FY10	FY11	FY10
Revenues:						
Program Revenues:						
Charges for services	\$ 471,048	\$ 267,108	\$ 4,329,000	\$ 3,653,989	\$ 4,800,048	\$ 3,921,097
Operating grants and contributions	52,548	182,847	-	-	52,548	182,847
Capital grants and contributions	648,296	889,152	1,233,569	-	1,881,865	889,152
General Revenues:						
Property taxes	2,418,445	2,407,914	-	-	2,418,445	2,407,914
Other taxes and franchise fees	871,480	796,803	-	-	871,480	796,803
Other	162,002	72,010	236,935	137,322	398,937	209,332
	4,623,819	4,615,834	5,799,504	3,791,311	10,423,323	8,407,145
Expenses:						
General government	899,628	1,011,386	-	-	899,628	1,011,386
Parks	264,779	200,431	-	-	264,779	200,431
Public safety	1,882,199	1,643,698	-	-	1,882,199	1,643,698
Streets	853,980	880,894	-	-	853,980	880,894
Debt service - interest	208,551	220,033	-	-	208,551	220,033
Development/Inspections	412,775	274,589	-	-	412,775	274,589
Water/Sewer/Sanitation	-	-	4,400,065	4,261,246	4,400,065	4,261,246
	4,521,912	4,231,031	4,400,065	4,261,246	8,921,977	8,492,277
Excess (deficiency) of revenues over expenditures before transfers	101,907	384,803	1,399,439	(469,935)	1,501,346	(85,132)
Transfers In (Out)	(59,138)	(366,799)	59,138	366,799	-	-
Increase in net assets	42,769	18,004	1,458,577	(103,136)	1,501,346	(85,132)
Net assets - October 1 (beginning)	13,798,501	13,780,497	14,811,805	14,914,941	28,610,306	28,695,438
Net assets - September 30 (ending)	\$ 13,841,270	\$ 13,798,501	\$ 16,270,382	\$ 14,811,805	\$ 30,111,652	\$ 28,610,306

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net assets of the City's governmental activities increased from \$13,798,501 to \$13,841,270. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$2,636,598 for governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$2,621,810 compared to \$2,504,935 in FY10. This represents an increase of \$116,975. The City has capital projects and debt service funds to properly account for governmental asset construction that is financed by borrowed funds.

Revenues and other financing sources for the City's general fund were \$3,540,011, while total expenses and other financing uses were \$3,497,240. This resulted in an excess of revenues over expenditures of \$42,771 from current operations (see page 14). Last year's result was an excess of revenues over expenditures of \$257,945. The largest increases in FY11 general fund expenditures came from the fire and development departments. The largest increase in FY11 general fund revenues came from development fees and sales taxes.

Revenues for the City's Utility Fund were \$4,565,944, while total expenses were \$4,400,065. This resulted in income before contributions and transfers of \$165,880. (see page 17) This is an improvement over 2010's loss before contributions and transfers of \$469,936. The main reason for the improvement was a \$459,432 increase in water revenues for 2011.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for all activities as of September 30, 2011 amounts to \$47,260,878 compared to \$46,614,781 (net of accumulated depreciation) at September 30, 2010. This investment in capital assets includes land, buildings and improvements, street improvements, water and sewer systems, equipment and vehicles. The total increase in the City's net investment in capital assets for the current fiscal year was \$646,097. Major capital asset purchases during 2011 related to the on-going improvements to the water and sewer system financed through the Greater Texoma Utility Authority, a new fire truck, and other improvements. The City also received \$1,874,902 of street, drainage, and other capital contributions.

Long-term Debt

At year-end, the City had total notes, bonds and contractual obligations outstanding of \$24,683,687. The City issued one new \$360,000 tax certificate of obligation during 2011 to finance new equipment. The City made all required bond, note, and contractual obligation principal payments for 2011 which totaled \$668,880.

The City also has two capital leases for equipment with a total year-end payable balance of \$59,055. No new capital lease agreements were created during the year. Capital lease principal payments totaled \$36,797 and all payments were made when due.

At the end of FY11, the City's total long-term commitments for governmental activities were \$4,944,345 and total long-term commitments for the Utility Fund are \$19,577,132. Total long-term commitments for the City decreased by \$338,973 from 2010 to 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the last decade, when the City of Anna was faced with a decision of how to respond to the growth pressures in the region, the city made a conscious choice to welcome and accommodate that growth. Part of that choice involved significant financial investments in public safety, parks, and utility infrastructure so that the City could accommodate and serve a rapidly growing population. Just over four years ago, the growth of the national and local economy began to slow significantly. The number of new homes constructed in the City fell from over five-hundred in 2006 to only seven in 2009.

This dramatic decline in growth has challenged the city's ability to fund the programs and infrastructure that we have invested in so heavily over the past decade. Approximately 60% of our General Fund revenue is derived from property taxes. Since 2008, the value of existing properties has declined an average of over 3% per year. That equates to a loss of over \$43 million in value based on a year to year comparison. Even with \$22 million in new buildings and property added to the tax roll since 2008, the value of the 2011 tax roll is 5.5% lower than the 2008 tax roll, and just under 1% lower than the 2010 certified tax roll.

While we have not yet received the 2011-2012 certified tax roll, we are hopeful that property values will remain stable during the next few years. We expect little or no increase in the value of existing properties, and it is still possible that we may even see a modest decrease in the value of existing properties again next year.

Over the next few years, we expect that any increase in the city's overall property tax base will come from new properties added to the tax roll. We have seen a notable increase in new residential construction for 2010 and 2011 where the city issued 26 and 92 single family building permits, respectively. This increase over the past two years is a positive sign that the local economy may be improving; however, uncertainty surrounding employment, housing prices, and our national economy continues to effect on our local economy here in Anna.

In spite of these challenges, the city has been able to maintain its commitment to building a safe, sustainable, and connected community. Even with limited resources, the City of Anna continues to make modest improvements. In 2009, the City started the annual Street Improvement Program which funds a major street construction project each year. Last year the City budget included, for the first time, personnel for the Parks program and full year funding for the Anna Fire Department which became a City department in July of 2010.

In order to fund the FY 2012 budget, the city adopted a tax rate of \$0.650332 per \$100 valuation which is identical to the tax rate adopted in FY 2011 and slightly less than the effective tax rate of \$0.668035. The effective tax rate is a calculated rate that would provide the city with about the same amount of revenue it received last year on properties taxed in both years. Because of the decline in property values, the effective tax rate is slightly more than the FY 2011 tax rate of \$0.650332 per \$100 valuation. With the adopted tax rate of \$0.650332, the owner of the average residential homestead in Anna will pay \$728.37 in property taxes this year which is \$20.39 less than the FY 2011 tax levy. When compared with other cities in our area, the City of Anna has one of lowest per-capita and average residential homestead property tax burdens. The adopted tax rate will actually reduce the total tax levy on prior existing properties.

In order to accommodate existing and projected growth, the city invested about \$20 million over the last decade to upgrade the water and sewer system. Up until two years ago, the city was able to pay about two-thirds of the outstanding water and sewer debt with impact fees that are paid by a home builder when a new home is constructed. As residential construction has declined, the resulting revenue from impact fees has fallen dramatically. On October 1, 2010, the base rate for residential water customers increased from \$18 to \$22 per month and the base rate for residential sewer customers increased from \$18 to \$22 per month. On January 1, 2012, an additional customer charge of \$0.15 per 1000 gallons of water used was adopted to pay for the water production fees now being charged by the North Texas Groundwater Conservation District.

While no additional rate increases have been proposed for FY 2012, the City is actively reviewing its existing water and sewer rates. This evaluation is necessary to ensure that the City is able to meet its outstanding debt obligations and prepare for future capital improvements that will be necessary to maintain utility service to our community. In addition to reviewing our water and sewer rates, the city is actively managing its outstanding debt. We have a series of planned debt refundings that will allow us to take advantage of low rates and develop a more level and modest repayment structure.

Although the city has some challenges, there are many positive things happening in our community. The City continues to see consistent increases in the amount of sales tax revenue collected each year, which is a testament to the health of our local business climate. The sales tax revenue collected in 2010 was up 15.8% over the sales tax revenue in 2009 and up again by over 10% in 2011 over 2010. While we expect these kinds of dramatic increases to level off, we do not anticipate a decrease in sales tax revenue over the next year.

The City's Economic Development Corporation has taken a very proactive approach in encouraging new businesses to locate in Anna and City staff continues to respond to a consistent stream of inquiries about business and development opportunities in Anna. The City also continues to be very successful in receiving grant funds to supplement local financial resources.

As Anna continues to grow, the City remains committed to the hometown ideal outlined in its strategic vision. The FY 2012 budget is designed to preserve the quality of existing services. It reflects a continuing commitment to improve the appearance and quality of community facilities, and a continuing investment in developing and maintaining a quality workforce.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall, at 111 North Powell Parkway, P.O. Box 776, Anna, Texas 75409-0776 or (972) 924-3325.

City of Anna, Texas
Statement of Net Assets
September 30, 2011

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Economic Develop Corporation	Community Develop Corporation
Assets				
Cash and cash equivalents	\$ 2,402,596	\$ 1,805,085	\$ 303,570	\$ 205,017
Receivables - net	265,648	424,891	47,459	47,312
Inventory	-	104,700	-	-
Internal balances	184,080	(184,080)	-	-
Prepaid bond issue costs	92,480	399,752	-	-
Restricted assets:				
Deposits held by GTUA	-	1,907,883	-	-
Other restricted cash	156,274	1,353,085	-	-
Receivables - long-term	-	-	-	99,900
Non-depreciable capital assets:				
Land	1,258,437	350,793	459,176	-
Construction in progress	45,959	92,285	-	-
Depreciable capital assets (net):				
Water and sewer systems	-	30,091,237	-	-
Buildings, machinery, and equipment	1,823,916	700,068	-	-
Park improvements	2,458,494	-	-	-
Streets and other infrastructure	10,439,686	-	-	-
Total assets	\$ 19,127,570	\$ 37,045,698	\$ 810,205	\$ 352,229

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Net Assets
September 30, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Economic Develop Corporation	Community Develop Corporation
Liabilities					
Accounts payable	\$ 197,337	\$ 62,111	\$ 259,448	\$ -	\$ -
Interest payable	32,774	627,506	660,280	-	-
Accrued liabilities	111,844	34,583	146,427	-	-
Customer meter deposits	-	473,984	473,984	-	-
Non-current liabilities:					
Due within one year	415,279	404,857	820,136	33,476	66,603
Due in more than one year	4,529,066	19,172,275	23,701,341	279,754	371,611
Total liabilities	5,286,300	20,775,316	26,061,616	313,230	438,214
Net Assets					
Invested in capital assets, net of related debt	11,048,398	11,657,252	22,705,650	145,946	-
Restricted for:					
GTUA deposits	-	1,907,883	1,907,883	-	-
Water and sewer improvements	-	1,353,085	1,353,085	-	-
Capital projects and other	156,274	-	156,274	-	-
Unrestricted	2,636,598	1,352,162	3,988,760	351,029	(85,985)
Total net assets	\$ 13,841,270	\$ 16,270,382	\$ 30,111,652	\$ 496,975	\$ (85,985)

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Activities
For the Year Ended September 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units	
					Governmental Activities	Business-type Activities	Economic Develop Corp.	Community Develop Corp.
Primary government:								
Governmental activities:								
Development and inspections	\$ 412,775	\$ 278,051	\$ -	\$ -	\$ (134,724)	\$ -	\$ -	\$ -
Highways and streets	853,980	-	-	641,343	(212,637)	-	-	-
General government	899,628	-	-	-	(899,628)	-	-	-
Police	1,233,428	22,106	51,528	-	(1,159,794)	-	-	-
Fire	466,499	62,028	1,020	-	(403,451)	-	-	-
Court	79,479	99,065	-	-	19,586	-	-	-
Ambulance	102,793	-	-	-	(102,793)	-	-	-
Parks	264,779	9,798	-	6,953	(248,028)	-	-	-
Interest on long-term debt	208,551	-	-	-	(208,551)	-	-	-
Total governmental activities	4,521,912	471,048	52,548	648,296	(3,350,020)	-	-	-
Business-type activities:								
Water and Sewer - operating	4,400,065	4,329,000	-	1,233,559	-	1,162,494	-	-
Total business-type activities	4,400,065	4,329,000	-	1,233,559	-	1,162,494	-	-
Total primary government	8,921,977	4,800,048	52,548	1,881,855	(3,350,020)	1,162,494	-	-
Component units:								
Economic Development Corp.	171,953	-	-	-	-	-	(171,953)	-
Community Development Corp.	223,450	-	99,900	-	-	-	-	(123,550)
Total component units	\$ 395,403	-	99,900	-	-	-	(171,953)	(123,550)
General revenues:								
Property taxes					2,418,445	-	-	-
Sales taxes					537,544	-	268,773	268,773
Franchise taxes					333,936	-	-	-
Investment interest					26,484	51,375	2,164	279
Miscellaneous					44,118	65,794	306	-
Developer fees					-	119,775	-	-
Intergovernmental					91,400	-	-	-
Transfers in (out)					(59,138)	59,138	-	-
Total general revenues and transfers					3,392,789	296,082	271,243	269,052
Change in net assets					42,769	1,458,577	99,290	145,502
Net assets - beginning (restated)					13,798,501	14,811,805	397,685	(231,487)
Net assets - ending					\$ 13,841,270	\$ 16,270,382	\$ 496,975	\$ (85,985)

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Balance Sheet - Governmental Type Funds
September 30, 2011

	Governmental Fund Types			Total Governmental Funds
	General	Capital Projects	Debt Service	
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,227,612	\$ 282,562	\$ 48,697	\$ 2,558,870
Accounts receivable - net	254,200	-	11,448	265,648
Due from other funds	202,080	-	-	202,080
Total current assets	2,683,891	282,562	60,145	3,026,598
Liabilities				
Current liabilities:				
Accounts payable	197,337	-	-	197,337
Accrued liabilities	111,844	-	-	111,844
Due to other funds	-	17,999	-	17,999
Deferred tax and court revenue	68,221	-	9,387	77,608
Total current liabilities	377,402	17,999	9,387	404,788
Fund Balances				
Restricted	156,274	264,563	50,758	471,595
Assigned - Fire Station Improvements	52,383	-	-	52,383
Unassigned	2,097,832	-	-	2,097,832
Total fund balances	2,306,489	264,563	50,758	2,621,810
Total liabilities and fund balances	\$ 2,683,891	\$ 282,562	\$ 60,145	\$ 3,026,598

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
For the Year Ended September 30, 2011

Fund balances of governmental funds	\$	2,621,810
-------------------------------------	----	-----------

**Amounts reported for governmental activities in the statement of net assets
(page 12) are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		16,026,492
---	--	------------

Accrued interest payable does not require the use of current financial resources and, therefore, are not reported in the governmental funds.		(32,774)
--	--	----------

Prepaid debt issuance costs are not financial resources and, therefore, are not reported in the funds.		92,480
--	--	--------

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(4,944,345)
--	--	-------------

Property taxes and court revenue not received at year-end are shown as deferred income on the fund financial statements, but the amount should not be shown as a liability on the statement of net assets.		77,607
--	--	--------

Net assets of governmental activities	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">13,841,270</div>
---------------------------------------	----	---

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2011

	Governmental Fund Types			Total Governmental
	General	Capital Projects	Debt Service	
Revenues				
Taxes:				
Property	\$ 2,049,025	\$ -	\$ 355,772	\$ 2,404,798
Sales	537,544	-	-	537,544
Franchise	333,936	-	-	333,936
Development fees and permits	278,051	-	-	278,051
Intergovernmental	91,400	-	-	91,400
Court	87,877	-	-	87,877
Fire	62,028	-	-	62,028
Other revenue	44,119	-	-	44,119
Investment earnings	23,107	2,202	1,175	26,484
Police	22,106	-	-	22,106
Parks	9,798	-	-	9,798
Grants	1,020	289,888	-	290,908
Total revenues	3,540,011	292,090	356,947	4,189,048
Expenditures				
Current:				
Police	1,096,547	-	-	1,096,547
Administrative and general	856,762	19,880	900	877,542
Development	411,206	-	-	411,206
Fire	413,469	-	-	413,469
Streets	155,894	-	-	155,894
Ambulance	102,793	-	-	102,793
Court	79,479	-	-	79,479
Parks	101,444	-	-	101,444
Capital outlays	212,205	398,649	-	610,853
Debt service:				
Principal retirement	61,682	-	262,055	323,737
Interest expense	5,761	-	194,311	200,071
Total expenditures	3,497,240	418,529	457,266	4,373,035
Excess of revenues over (under) expenditures	42,771	(126,439)	(100,319)	(183,987)
Other financing sources (uses)				
Certificate of obligation proceeds	-	360,000	-	360,000
Transfers in	-	-	107,636	107,636
Transfers (out)	-	(166,774)	-	(166,774)
Total other financing sources(uses)	-	193,226	107,636	300,862
Net changes in fund balances	42,771	66,787	7,317	116,875
Fund balances - beginning (General Fund restated)	2,263,718	197,776	43,440	2,504,935
Fund balances - ending	\$ 2,306,489	\$ 264,563	\$ 50,758	\$ 2,621,810

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2011

Amounts reported for governmental activities in the statement of activities (page 16) are different because:

Net change in fund balances - total governmental funds (page 16)	\$ 116,875
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(491,854)
Non-cash capital contributions and other contributions not received within sixty days after year-end are not reported as income in the governmental funds.	641,343
The increase in accrued interest does not require the use of current financial resources and, therefore is not reported as an expenditure in the governmental funds.	(8,480)
Principal payments on long-term debt are an expenditure for the governmental funds, but this expenditure is removed for the government-wide financial statements.	323,737
Prior year park grant revenues were not recorded as a receivable on the prior year fund financial statements, but were accrued for the government-wide financials in the prior year. This revenue recognized as 2011 revenue for the fund financial statements is removed for the government wide financial statements.	(231,407)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in deferred revenue and various other items. The net effect of these reclassifications is to increase net assets.	52,555
Governmental funds report new certificates of obligations as a source of income from financing, but this income source is removed for the government-wide financial statements.	(360,000)
Change in net assets of governmental activities (page 13)	<u>\$ 42,769</u>

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Net Assets - Proprietary Fund (Utility Fund)
September 30, 2011

Assets	2011
Current assets:	
Cash and cash equivalents	\$ 1,805,085
Accounts receivable - net	424,891
Inventory	104,700
Due from other funds	17,999
Total current assets	<u>2,352,674</u>
Noncurrent assets:	
Restricted assets:	
Cash held by GTUA	1,907,883
Cash restricted for capital improvements	<u>1,353,085</u>
Total restricted assets	<u>3,260,968</u>
Deferred charges - prepaid bond issue costs	399,752
Capital assets (non-depreciable):	
Land	350,793
Construction in progress	92,285
Capital assets (net of depreciation):	
Plants, machinery, and equipment	<u>30,791,306</u>
Total capital assets	<u>31,234,384</u>
Total noncurrent assets	<u>34,895,103</u>
Total assets	<u><u>\$ 37,247,778</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 62,111
Other liabilities	34,583
Bond interest payable	627,506
Due to General Fund	202,080
Customer deposits	473,984
Current portion of long-term debt	<u>404,857</u>
Total current liabilities	<u>1,805,120</u>
Noncurrent liabilities:	
Bonds and notes payable	<u>19,172,275</u>
Total liabilities	<u>20,977,396</u>
Net Assets	
Investment in capital assets, net of related debt	11,657,252
Restricted - GTUA deposits	1,907,883
Restricted - water and sewer improvements	1,353,085
Unrestricted	<u>1,352,162</u>
Total net assets	<u><u>\$ 16,270,382</u></u>

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Revenues, Expenses, and Changes in
Net Assets - Proprietary Fund (Utility Fund)
For the Year Ended September 30, 2011

	<u>2011</u>
Operating revenues:	
Water income	\$ 2,282,901
Sewer income	1,327,044
Sanitation income	573,248
Developer and impact fees	119,775
Water customer late fees	107,723
Connect, install, and tap fees	38,085
Miscellaneous revenue	65,794
Total operating revenues	<u>4,514,569</u>
Operating expenses:	
Water service	1,545,960
Sewer service	504,581
Sanitation service	497,075
Depreciation	1,048,110
Total operating expenses	<u>3,595,725</u>
Operating income	918,844
Non-operating revenues (expenses):	
Interest income	51,375
Interest expense	(782,175)
Bond amortization	(22,165)
Total non-operating revenues (expenses)	<u>(752,964)</u>
Income before contributions and transfers	165,880
Contributed capital assets	1,233,559
Transfers in	59,138
Transfers out	-
Changes in net assets	<u>1,458,577</u>
Total net assets - beginning (restated)	14,811,805
Total net assets - ending	<u><u>\$ 16,270,382</u></u>

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Cash Flows - Proprietary Fund (Utility Fund)
For the Year Ended September 30, 2011

Operating Activities:	2011
Receipts from customers and users	\$ 4,356,906
Payments to suppliers	(2,015,775)
Payments to employees	(541,258)
Net cash provided (used) by operating activities	<u>1,799,873</u>

Capital and Related Financing Activities:	
Cash paid for acquisition and construction of capital assets	(186,824)
Interest paid on capital debt	(900,100)
Principal payments on capital debt	(383,490)
Net cash provided (used) by capital and related financing activities	<u>(1,470,415)</u>

Non-capital and Related Financing Activities	
Net cash provided (used) by non-capital and related financing activities	<u>-</u>

Investing Activities:	
Interest received	51,375
Net cash provided (used) by investing activities	<u>51,375</u>
Net increase (decrease) in cash and cash equivalents	380,834
Cash and cash equivalents, October 1	1,424,251
Cash and cash equivalents, September 30	<u><u>\$ 1,805,085</u></u>

Reconciliation of Operating Income to Net Cash Provided

(Used) by Operating Activities:	
Operating income (loss)	\$ 918,844
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	1,070,275
Decrease (increase) in accounts receivable	(92,001)
Decrease (increase) in inventory	(104,700)
Decrease (increase) in other assets	(7,930)
Increase (decrease) in accounts payable	(9,418)
Increase (decrease) in other liabilities	4,881
Increase (decrease) in customer deposits	19,922
Net cash provided by operating activities	<u><u>\$ 1,799,873</u></u>

Non-cash capital activities:	
Transfer of capital assets from the capital projects fund	\$ 59,138
Contributions of capital assets	<u>\$ 1,233,559</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ANNA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The City of Anna, Texas (the "City") is a Home Rule Charter city that operates under a Council-Manager form of government. The City provides the following services: public safety, ambulance, streets, sanitation, planning and zoning, and general administrative services. Other services include water, sewer, and sanitation operations.

The financial statements of the City of Anna are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements. The following is a summary of the more significant policies:

1. The Reporting Entity

The accompanying financial statements present all funds relevant to the operations of the City and its component units, entities for which the City is considered to be financially accountable. The component units presented are those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. Each component unit is reported in a separate column in the government wide financial statements to emphasize that it is legally separate from the City.

Based on the criterion stated above, the Anna Community Development Corporation ("CDC") and the Anna Economic Development Corporation ("EDC") are component units of the City. The CDC and EDC are nonprofit organizations established to act on behalf of the City of Anna under the Development Corporation Act of 1979, section 4B and 4A, respectively.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the City is financially accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes or other items not properly included among program revenues are reported instead as *general revenues*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when all of the eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become both measurable and available as net current assets. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Gross receipts and sales taxes are considered measurable when in the hands of intermediary collecting government and are recognized as revenue at that time. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which are recognized when due.

Proprietary funds distinguish operating revenues and expenses from *non-operating items*. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues not meeting this definition are reported as non-operating revenues and expenses. All proprietary funds are accounted for using the *accrual basis of accounting*. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled utility services receivables related to water, wastewater, and sanitation services are recorded at year-end.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted funds first, then unrestricted resources as they are needed.

4. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The City, for financial purposes, includes all of the funds relevant to the operations of the City of Anna. The various funds are grouped, in the financial statements in this report, into two fund categories as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund

Accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Projects Fund

Accounts for the acquisition and construction of governmental type assets from expenditures of debt proceeds, capital grants, or other sources restricted for governmental type asset acquisition.

PROPRIETARY FUND TYPES

Utility Fund

Account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Utility Fund accounts for the water, sewer, and sanitation services provided by the City.

5. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Other deposits with longer maturities are classified as investments.

6. Capital Assets

Property, plant and equipment used in governmental fund type operations are shown on the statement of net assets, rather than governmental funds. General fixed assets including land, buildings, equipment, roads, bridges, streets and sidewalks.

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property, plant and equipment are valued at their estimated fair value on the date donated. Depreciation is provided in the enterprise funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The service lives by type of asset are follows:

<u>Asset Category</u>	<u>Depreciable Life in Years</u>
Buildings	20
Water & Sewer System infrastructure	35
Equipment	3-10
Streets	20

7. Long Term Liabilities

Long-term liabilities expected to be financed from governmental fund types are shown on the statement of net assets, rather than governmental funds. Principal payments for this debt are expensed on the fund financial statement, but this expense is removed for the government-wide statement of activities.

8. Due To and From Funds

Outstanding balances between funds at the end of the fiscal year are referred to as either “due to/from other funds”. Any residual balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

9. Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City will not pay any unused amounts when employees separate from service with the City. Vacation pay is accrued in the government-wide and proprietary financial statements.

10. Fund Balances

The Governmental Accounting Standards Board (GASB) has issued *Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes in the fund financial statements for governmental type funds. It does not apply for the government-wide financial statements or proprietary type funds.

GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable - such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned)

Restricted - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

Committed - fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors (the district’s highest level of decision-making authority),

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Assigned - fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

Unassigned - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications, and other funds that have total negative fund balances.

11. Budget and Budgetary Accounting

The official city budget is prepared for adoption for the Governmental Fund Type and the Proprietary Fund Type during the month of September.

12. Revenue Recognition – Property taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end.

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of September 30, 2011, the City maintains banking accounts at Texas Star Bank, Independent Bank, and the state-operated Texpool system. The City's investments are limited to demand deposits and certificates of deposits in financial institutions that are members of the FDIC.

At September 30, 2011, City's deposits held in its depository banks totaled \$5,714,440 with \$1,205,017 insured by the Federal Deposit Insurance Corporation. Securities have been pledged by the depository banks to collateralize 100% of all remaining deposits.

Summary of deposits with financial institutions:	
Primary government cash and cash equivalents	\$ 4,207,681
Restricted cash (non GTUA)	1,509,359
Less: petty cash	(1,300)
Deposits with financial institutions	5,715,740
Add: petty cash	1,300
Restricted deposits held by GTUA	1,907,883
Total primary government cash and other deposits	<u>\$ 7,624,923</u>

NOTE C – PROPERTY TAX REVENUE

Property and personal taxes are billed and collected by the Collin County Tax Assessor/Collector. The total property tax levy for the 2010/2011 tax year is \$2,373,675. At September 30, 2011, \$2,330,562 of the tax has been collected, which is 98.2%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of the levy on October 1. Property tax receivables are recognized when the City has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available.

Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The City's availability period is sixty days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

Current taxes are levied by October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. The penalty is 6% for the first month, and increased 1% per month up to a 12% maximum. Under state law, property taxes levied on real property constitutes a lien on the real property which cannot be forgiven without specific approval of the state legislature.

NOTE D - RECEIVABLES

Receivables at September 30, 2011, consisted of the following:

	Primary Government			Component Units	
	General Fund	Debt Service Fund	Proprietary Fund	Economic Development Corporation	Community Development Corporation
Property tax	\$ 66,038	\$ 11,448	\$ -	\$ -	\$ -
Sales tax	94,624	-	-	47,312	47,312
Franchise tax and other	72,573	-	-	147	-
Court fines	306,373	-	-	-	-
Loans (long-term)	-	-	-	-	99,900
Utility bills	-	-	455,754	-	-
Gross receivables	539,608	11,448	455,754	47,459	147,212
Less: Allowance for uncollectibles	(285,408)	-	(30,863)	-	-
Net receivables	\$ 254,200	\$ 11,448	\$ 424,891	\$ 47,459	\$ 147,212

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE E – CAPITAL ASSETS

GOVERNMENTAL FUND TYPE ACTIVITIES

Governmental fund type capital asset activity for the year ended September 30, 2011 was as follows:

	Beginning Balance	Beginning Balance Restatements	Additions	Retirements, Transfers, and Reclassifications	Ending Balance
Nondepreciable assets:					
Land	\$ 1,223,676	\$ 34,761	\$ -	\$ -	\$ 1,258,437
Construction in progress	-	-	45,959	-	45,959
Depreciable assets:					
Park improvements	2,850,373	-	-	-	2,850,373
Buildings	977,423	16,128	-	-	993,551
Furniture and fixtures	103,101	-	-	-	103,101
Streets and drainage	13,602,327	-	789,835	-	14,392,162
Machinery and equipment	1,365,603	267,813	441,014	(48,048)	2,026,382
Totals at historical cost	20,122,503	318,702	1,276,808	(48,048)	21,669,965
Less: Accumulated depreciation	(4,459,016)	(142,548)	(1,102,707)	60,800	(5,643,471)
Governmental fund type capital assets, net	\$ 15,663,487	\$ 176,154	\$ 174,101	\$ 12,752	\$ 16,026,494

PROPRIETARY FUND TYPE ACTIVITIES

Proprietary fund type capital asset activity for the year ended September 30, 2011 was as follows:

	Beginning Balance	Beginning Balance Restatements	Additions	Retirements, Transfers, and Reclassifications	Ending Balance
Nondepreciable assets:					
Land	\$ 143,883	\$ 206,910	\$ -	\$ -	\$ 350,793
Construction in progress	957,989	(205,159)	-	(660,545)	92,285
Depreciable assets:					
Furniture	5,620	-	-	-	5,620
Buildings and improvements	58,737	-	427,507	-	486,244
Equipment	572,353	-	27,854	(7,886)	592,321
Water treatment system	6,856,136	-	-	-	6,856,136
Water and sewer system	27,236,472	-	886,840	660,545	28,783,857
Totals at historical cost	35,831,190	1,751	1,342,201	(7,886)	37,167,256
Less: Accumulated depreciation	(4,879,896)	-	(1,048,110)	(4,866)	(5,932,872)
Proprietary fund type activities capital assets, net	\$ 30,951,294	\$ 1,751	\$ 294,091	\$ (12,752)	\$ 31,234,384

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Component unit capital asset activity for the year ended September 30, 2011 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
EDC component unit:				
Nondepreciable assets:				
Land	\$ 459,176	\$ -	\$ -	\$ 459,176
Component unit capital assets, net	\$ 459,176	\$ -	\$ -	\$ 459,176

Depreciation for general fixed assets is included as an expense for governmental activities on the statement of activities. Depreciation for proprietary type funds are included in both the fund financial statements and on the statement of activities.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Streets	\$ 700,687
Parks	163,335
Police	128,627
General government	55,459
Fire	53,030
Inspections	1,569
Total depreciation expense - governmental activities	<u>\$ 1,102,707</u>

Business-type activities:

Water and sewer	\$ 1,048,110
Total depreciation expense - business-type activities	<u>\$ 1,048,110</u>

NOTE F - LONG-TERM DEBT

The City has outstanding general obligation bonds, revenue bonds, notes payable, capital leases, and certificates of obligation for the acquisition of capital assets and the construction of major capital facilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following is a schedule of future debt service requirements to maturity:

Fiscal Year Ended	Total		Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	731,981	1,048,041	327,124	204,551	404,857	843,490
2013	735,710	1,031,446	289,431	184,767	446,279	846,679
2014	816,902	1,021,635	270,906	173,866	545,996	847,769
2015	1,233,000	998,604	273,000	162,642	960,000	835,962
2016	1,282,750	965,310	289,000	151,382	993,750	813,928
2017-2021	6,439,500	5,523,424	1,282,000	1,168,932	5,157,500	4,354,492
2022-2026	7,707,500	3,682,228	1,790,000	680,946	5,917,500	3,001,282
2027-2031	3,211,250	1,129,662	335,000	57,376	2,876,250	1,072,286
2032-2036	1,508,750	441,702	-	-	1,508,750	441,702
2037-2041	766,250	114,690	-	-	766,250	114,690
2042-2046						
	<u>\$ 24,433,592</u>	<u>\$ 15,956,742</u>	<u>\$ 4,856,460</u>	<u>\$ 2,784,462</u>	<u>\$ 19,577,132</u>	<u>\$ 13,172,280</u>

The following is a summary of the terms of the City's long-term debt at September 30, 2011:

Governmental Activities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2011	Due Within One Year
2005 Combination Tax and Limited Surplus Revenue Certificates of Obligation	\$ 2,480,000	2005	2/15/2026	3.5%-5.25%	\$ 2,080,000	\$ 105,000
2007 Certificate of Obligation	1,420,000	2007	2/15/2027	3.95% to 15%	1,135,000	80,000
2007 Revenue Bond	370,000	2007	2/15/2027	3.95% to 15%	290,000	20,000
Capital lease for fire truck	161,017	2003	3/15/2012	5.35%	21,651	21,651
Capital lease for Groundmaster	70,758	2010	2013	5.38%	37,404	16,979
Fire truck note	170,000	2005	2012	5.625%	24,496	24,496
2011 Tax Revenue Certificates of Obligation	360,000	2011	2/15/2026	3.34%	360,000	-
2009 Tax and Revenue Certificate of Obligation	900,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	860,000	35,000
Fire rescue truck note	55,000	2009	2/3/2014	5.00%	34,615	10,974
Police car #8 note	37,988	2009	2/3/2012	5.00%	13,294	13,294
Compensated absences					87,885	87,885
Total Governmental Activities					<u>\$ 4,944,345</u>	<u>\$ 415,279</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Business-Type Activities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2011	Due Within One Year
1976 Junior Lien Waterworks and Sewer System Revenue Bonds	\$ 95,000	1976	9/30/2014	5%	\$ 15,000	\$ 5,000
1976 General Obligation Water Bonds	100,000	1976	9/30/2016	5%	24,500	4,500
2005 GTUA contract	2,885,000	2005	5/1/2028	4.42%	2,180,000	-
Series 2006 GTUA contract revenue bonds (12&15)	2,125,000	2006	6/1/2026	2.95%-3.75%	1,730,000	90,000
Series 2007 GTUA contract revenue bonds	760,000	2007	5/1/2027	3.07%-5.57%	680,000	30,000
2007 GTUA contract	1,105,000	2007	5/1/2027	3.07%-5.57%	1,000,000	40,000
2007 GTUA contract	2,325,000	2007	6/1/2028	2.95%-4.1%	2,080,000	85,000
2007 GTUA contract	3,365,000	2007	5/1/2032	3.07%-5.62%	3,285,000	25,000
2008 GTUA contract	540,000	2008	9/30/2027	2.29%-5.74%	480,000	20,000
CGMA Pipeline Project Phase I	700,000	2008	10/1/2028	2.29%-5.74%	581,250	21,250
CGMA Pipeline Project Phase II	2,168,750	2008	9/30/2040	5.68%-5.83	2,168,750	-
CGMA Pipeline Project Phase III	1,250,000	2008	10/1/2036	2.67%-5.62%	1,191,250	41,250
2009 combination tax and revenue refunding bond	4,165,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	4,115,000	25,000
Backhoe note	87,344	2009	2/2/2014	5%	46,382	17,857
Total Business-Type Activities					<u>19,577,132</u>	<u>404,857</u>
Total general debt (Governmental Type and Business-Type Activities)					<u>\$ 24,521,477</u>	<u>\$ 820,136</u>

Community Development Corporation (CDC)

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2011	Due Within One Year
Note payable	629,000	2008	8/1/2018	Federal fixed rate plus 3%	\$ 438,214	\$ 66,603

Economic Development Corporation (EDC)

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2011	Due Within One Year
Note payable	410,400	2008	2018	5%	\$ 313,230	\$ 33,476

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-term debt activity for the year ended September 30, 2011 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
2005 Combination Tax and Limited Surplus					
Revenue Certificates of Obligation	\$ 2,180,000	\$ -	\$ (100,000)	\$ 2,080,000	\$ 105,000
2007 Certificate of Obligation	1,210,000	-	(75,000)	1,135,000	80,000
2007 Revenue Bond	310,000	-	(20,000)	290,000	20,000
2011 Tax Revenue Certificates of Obligation	-	360,000	-	360,000	-
Capital lease for fire truck	41,739	-	(20,088)	21,651	21,651
Capital lease for Groundmaster	54,113	-	(16,709)	37,404	16,979
Fire truck note	47,649	-	(23,154)	24,495	24,496
Police car note	14,140	-	(14,140)	-	-
2009 Tax and Revenue Certificate of Obligation	890,000	-	(30,000)	860,000	35,000
Fire rescue truck note	45,060	-	(10,444)	34,616	10,974
Police car #8 note	25,946	-	(12,652)	13,294	13,294
Other liabilities	81,181	6,704	-	87,885	87,885
Total Governmental activity long term liabilities	\$ 4,899,828	\$ 366,704	\$ (322,187)	\$ 4,944,345	\$ 415,279

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business activities:					
1976 Junior Lien Waterworks and Sewer System					
Revenue Bonds	\$ 19,500	\$ -	\$ (4,500)	\$ 15,000	\$ 5,000
1976 General Obligation Water Bonds	29,000	-	(4,500)	24,500	4,500
2005 GTUA contract	2,180,000	-	-	2,180,000	-
Series 2006 GTUA contract revenue bonds (12&15)	1,815,000	-	(85,000)	1,730,000	90,000
Series 2007 GTUA contract revenue bonds	705,000	-	(25,000)	680,000	30,000
2007 GTUA contract	1,040,000	-	(40,000)	1,000,000	40,000
2007 GTUA contract	2,165,000	-	(85,000)	2,080,000	85,000
2007 GTUA contract	3,310,000	-	(25,000)	3,285,000	25,000
2008 GTUA contract	500,000	-	(20,000)	480,000	20,000
CGMA Pipeline Project Phase I	601,250	-	(20,000)	581,250	21,250
CGMA Pipeline Project Phase II	2,168,750	-	-	2,168,750	-
CGMA Pipeline Project Phase III	1,223,750	-	(32,500)	1,191,250	41,250
2009 combination tax and revenue refunding bond	4,140,000	-	(25,000)	4,115,000	25,000
Backhoe note	63,372	-	(16,990)	46,382	17,857
Totals	\$ 19,960,622	\$ -	\$ (383,490)	\$ 19,577,132	\$ 404,857

CONTRACTUAL OBLIGATIONS WITH GREATER TEXOMA UTILITY AUTHORITY

Under the terms of long term water supply and sewer service contracts between the City and Greater Texoma Utility Authority (GTUA), the city recognizes that GTUA has an undivided ownership interest in the City's water system and sewer collection and treatment facility equivalent to the percentage of the total cost of the facility provided by GTUA through the issuance of GTUA bonds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The City has a contractual obligation to make payments specified by the contract to GTUA to pay the principal and interest on the bonds, maintain a Reserve Fund for the security and payment of bonds similarly secured, pay the administrative and overhead expenses of GTUA directly attributable to the bonds, and pay any extraordinary expenses incurred by GTUA in connection with the bonds. Under terms of the contracts the City's obligation to make payments to GTUA, as well as GTUA's ownership interest in the facilities terminates, when all of GTUA's bonds issued in connection with construction of the facilities have been paid in full, are retired, and are no longer outstanding.

Collin Grayson Municipal Alliance Transmission Water Pipeline

In 2004, the City, along with the City of Van Alstyne, Howe, and Melissa, formed a group called the Collin Grayson Municipal Alliance ("CGMA"). CGMA entered into a long-term contractual obligation with GTUA for the purpose of providing funds for the construction of a transmission water pipeline that will provide water to CGMA cities. The cost of the pipeline is being funded in four phases.

Each CMGA city was required to make payments to GTUA in an amount equivalent to 25% of the total obligation to cover their portion of the cost of the obligation until the pipeline project was completed. As water continues to flow to each CGMA city, the City shall be charged it's percentage or fraction share of debt service on the obligation based upon: the amount of water to be paid by the City under its water contract (i.e. the greater of its minimum take-or-pay amount or the actual amount of water taken) divided by the total amount of water to be paid by all CGMA cities. The sum of the four (4) fractional amounts shall always equal 100% of the debt service on the contractual obligation with GTUA. The billing rates for each City will be calculated to provide funds necessary to cover the contractual obligation, interest, repairs, maintenance, and production costs.

At the end of the contractual obligation with GTUA, the City will own an undivided interest in the transmission water pipeline based on the percentage of water it utilized and paid for during the contract term. The contract will expire and the transfer of ownership will occur during the fiscal year ended September 30, 2040, as long as no new debt is issued.

Component Unit Debt

<i>Community Development Corporation (CDC)</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
FY08 Bank note payable - Fed fixed rate plus 3% a.p.r. - Matures 2018 - Original amount was \$629,000	\$ 502,687	\$ -	\$ (64,473)	\$ 438,214	\$ 66,603
<i>Economic Development Corporation (EDC)</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
FY08 Bank note payable - 5% a.p.r. - Matures 2018 - Original amount was \$410,400	\$ 345,116	\$ -	\$ (31,886)	\$ 313,230	\$ 33,476

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE G – LEASES

The City has entered into capital lease agreements for the purchase of vehicles and equipment. The following is a schedule of the future minimum lease payments:

Year Ending September 30,	<u>Governmental Activities</u>	
	Fire Truck	Groundmaster
2012	22,352	19,904
2013	-	19,904
Future minimum lease payments	22,352	39,808
Less: amount representing interest	(701)	(2,404)
Present value of minimum lease payments	<u>\$ 21,651</u>	<u>\$ 37,404</u>
Cost of equipment	\$ 169,230	\$ 70,758

NOTE H – FUND BALANCES AND RESTRICTED NET ASSETS

Governmental-Type Fund Balances

The City authorized the City Administrator to designate certain fund balances as assigned. Excluding unassigned fund balances, the following describes the City's fund balance classifications at September 30, 2011:

Restricted Fund Balances

All fund balances for the Capital Projects and Debt Service funds are restricted for the intended purpose of these funds. Restricted Fund Balances of \$161,025 for the General Fund represents assets restricted by law or by agreements with third parties.

The following describes the various fund balance restrictions for the General Fund:

Impact fees for park improvements	\$ 66,094
Fire Department improvements	32,546
Eastside Park improvements	28,804
State Seizure funds held in trust	10,545
Municipal court building security	7,669
Court bond funds held in trust	5,130
Sweetwater Crossing funds held in trust	2,327
Impact fees for street improvements	1,500
Municipal court technology	1,067
Law enforcement officer training fund	516
Child safety programs	74
	<u>\$ 156,274</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Assigned Fund Balances

The City assigned \$52,383 of General Fund fund balances to make future fire department improvements.

Proprietary Fund Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

At September 30, 2011, the City's net assets were restricted for the following purposes:

- The Utility Fund has restricted cash held by GTUA in the amount of \$1,907,883 that will be used for water and sewer system capital improvements and repayment of contractual obligations.
- The Utility Fund has restricted net assets in the form of cash deposits totaling \$1,353,085 that will be used for water and sewer system capital improvements and debt service related to such improvements.

NOTE I – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at September 30, 2011 are as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and Sewer	\$ 202,080
Water and sewer	General	17,999
		<u>\$ 184,081</u>

Net internal balances:

NOTE J – RISK MANAGEMENT

The City is exposed to various risks of loss related to litigation, theft, property damage, errors and omissions, injuries, and natural disasters. The City's insurance is by membership in the Texas Municipal League, a public entity risk pool operated by the Texas Municipal League Board for the benefit of governmental units in Texas. Insurance in effect at September 30, 2011 is summarized as follows: Workers compensation, general liability, automobile liability, personal property, law enforcement liability, and errors and omissions. There were no significant reductions in insurance coverage from the prior year. Settled claims for risks have not exceeded insurance coverage for the past four years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE K – PRIOR PERIOD ADJUSTMENTS

Both the General Fund fund balance and Utility Fund net assets were restated at September 30, 2010 as follows:

<u>Governmental Fund Types</u>	<u>General Fund</u>
Fund balances - beginning	\$ 2,223,236
Prior period adjustment for overstated payables	40,482
Fund balances - beginning as adjusted	<u>\$ 2,263,718</u>
<u><i>Government-wide effects</i></u>	<u>Governmental</u>
	<u>Activities</u>
Net Assets - beginning	\$ 13,581,845
Prior period adjustment for overstated payables	40,482
Prior period adjustments for misstated capital assets	176,174
Net Assets - beginning as adjusted	<u>\$ 13,798,501</u>
<u>Proprietary Fund Types</u>	<u>Utility Fund</u>
Net Assets - beginning	\$ 14,601,442
Prior period adjustment for overstated payables	208,612
Prior period adjustments for misstated capital assets	1,751
Net Assets - beginning as adjusted	<u>\$ 14,811,805</u>

NOTE L – SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of issuance which is the date of the auditor's report, and there are no subsequent events to disclose.

REQUIRED SUPPLEMENTARY INFORMATION

City of Anna, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2011

	Original Budget	Amended Budget	Actual Amounts	Variance with Amended Budget - Positive (Negative)
Revenues				
Taxes:				
Property	\$ 2,023,585	\$ 2,023,585	\$ 2,049,025	\$ 25,440
Sales	428,700	473,700	537,544	63,844
Franchise	340,000	340,000	333,936	(6,065)
Development/Building permits	94,300	94,300	278,051	183,751
Intergovernmental	90,750	90,750	91,400	650
Court	156,025	156,025	87,877	(68,148)
Fire	83,500	83,500	62,028	(21,472)
Grants and other revenue	15,000	15,000	45,139	30,139
Investment earnings	5,400	5,400	23,107	17,707
Police	5,249	5,249	22,106	16,857
Parks	17,300	17,300	9,798	(7,502)
Total revenues	3,259,809	3,304,809	3,540,011	235,202
Expenditures				
Current:				
Police	1,122,046	1,132,946	1,096,547	36,399
Administrative and general	805,570	857,070	856,762	308
Fire	355,620	371,820	413,469	(41,649)
Development	348,391	348,391	411,206	(62,815)
Streets	159,400	139,400	155,894	(16,494)
Ambulance	105,877	105,877	102,791	3,086
Parks	114,479	114,479	101,444	13,035
Court	77,577	77,577	79,479	(1,902)
Capital outlay:				
Streets, parks, and other	143,400	240,400	212,205	28,195
Debt service:				
Principal retirement	59,569	59,569	61,682	(2,113)
Interest expense	7,875	7,875	5,761	2,114
Total expenditures	3,299,804	3,455,404	3,497,240	(41,836)
Excess of revenues over (under) expenditures	(39,995)	(150,595)	42,771	193,366
Other financing sources (uses)				
Transfers in (out)	-	-	-	-
Total other financing sources(uses)	-	-	-	-
Net changes in fund balance	(39,995)	(150,595)	42,771	193,366
Fund balance - beginning (restated)	2,263,718	2,263,718	2,263,718	-
Fund balances - ending	\$ 2,223,723	\$ 2,113,123	\$ 2,306,489	\$ 193,366

See independent auditor's report.

CITY OF ANNA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2011

RETIREMENT SYSTEM – PENSION FUNDING DATA

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide, Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. TMRS issues stand-alone financial reports annually and these can be obtained by request at the following address: TMRS, P.O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employer's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. The plan provisions are adopted by the governing body of the City within options available in the statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows:

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
Member Vested After:	5 years of service
Retirement Eligibility:	Minimum age 60 with 5 years of service Any age with 20 years of service

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2010 valuation is effective for rates beginning January 1, 2011).

CITY OF ANNA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2011

RETIREMENT SYSTEM – PENSION FUNDING DATA (continued)

Funding Status and Progress

Even though the substance of the City's plan is not to provide a defined benefit in some form, additional disclosure is appropriate due to the nontraditional nature of the defined contribution plan which had an initial unfunded pension benefit obligation to the monetary credits granted by the City for services rendered before the plan began and which can have additions to the unfunded pension benefit obligation through the periodic adoption of increases in benefit credits and benefits. Statement No. 5 of the Governmental Accounting Standards Board (GASB 5) defines pension benefit obligation as a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of public employee pension plans, assess programs made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee pension plans.

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required by GASB 5 for defined benefit plans except that there is no need to project salary increases since the benefit credits earned for service to date are not dependent upon future salaries. The calculations were made as part of the actuarial valuation as of December 31, 2010.

Schedule of Actuarial Liabilities and Funding Progress (in thousands)

<u>Actuarial Valuation Date</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Value of Assets	\$ 1,362	\$ 908	\$ 622	\$ 407
Accrued Liability	2,557	1,829	1,467	1,029
(Unfunded) Accrued Liability	\$ (1,195)	\$ (921)	\$ (845)	\$ (622)
Percentage Funded	53.3%	49.6%	42.4%	39.6%
Annual Covered Payroll	\$ 1,982	\$ 1,655	\$ 1,607	\$ 1,283
Ratio of Unfunded to Annual Covered Payroll	60.3%	55.6%	52.6%	48.5%
<u>Financial Year Ended September 30,</u>	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contributions Made	\$ 247	\$ 203	\$ 156	\$ 129

CITY OF ANNA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2011

RETIREMENT SYSTEM – PENSION FUNDING DATA (continued)

Actuarial Information (December 31, 2010)

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	27.3 Years – Closed Period
Asset Valuation Method	10-year smoothed market
Investment Rate of Return	7.0%
Projected Salary Increase	Varies by Age and Service
Includes Inflation At	3.0%
Cost-of-Living-Adjustments	2.1%
City-specific Assumptions:	
Payroll growth assumption	3.0%

Supplemental Death Benefits Fund (SDBF)

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years 2011, 2010, 2009, and 2008 were \$2,807, \$2,814, \$2,571, and \$2,052 respectively, which equaled the required contributions each year.

COMPLIANCE AND INTERNAL CONTROLS SECTION



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

March 29, 2012

To the City Council of the
City of Anna, Texas

We have audited the financial statements of the City of Anna, Texas (the "City") as of and for the year ended September 30, 2011, and have issued our report thereon dated March 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Preparation of Financial Statements

The City does not prepare its own full-disclosure financial statements as required by generally accepted accounting principles. This could impact the City's ability to report financial data reliably such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the City Council, others within the entity, and appropriate state and federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

LaFollett and Company PLLC

Tom Bean, Texas
March 29, 2012